

## Message Text

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PAGE 01 MOSCOW 02685 231010Z

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

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R 230905Z FEB 76

FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC 266

INFO AMEMBASSY BELGRADE

AMEMBASSY BERLIN

AMEMBASSY BONN

USMISSION EC BRUSSELS

AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

AMEMBASSY LONDON

USMISSION NATO

AMEMBASSY PARIS

USMISSION OECD PARIS UNN

AMEMBASSY PRAGUE

AMEMBASSY ROME

AMEMBASSY SOFIA

AMEMBASSY WARSAW

C O N F I D E N T I A L MOSCOW 2685

E.O. 11652: GDS

TAGS: EFIN, ETRD, ENRG, EALR, EINC, UR COMECON, GW, UK, FRN

IT, US

SUBJECT: CEMA INTERNATIONAL INVESTMENT BANK (IIB) PLANS FOR ADDITIONAL EURODOLLAR BORROWING IN 1976

REF: 75 MOSCOW 13994, MOSCOW A-05,

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PAGE 02 MOSCOW 02685 231010Z

1. SUMMARY - CEMA INTERNATIONAL INVESTMENT BANK (IIB) IS RELIABLY

REPORTED TO BE NEGOTIATING IN WESTERN MONEY MARKETS FOR NEW 600 MILLION EURODOLLAR LOAN TO BE USED FOR PIPE AND EQUIPMENT FOR ORENBURG NATURAL GAS PROJECT. TENTATIVE PLANS CALL FOR ADDITIONAL BORROWING OF 200 OR 300 MILLION EURODOLLARS DURING LAST QUARTER OF 1976, ALSO FOR ORENBURG. ALTHOUGH IIB IS TECHNICALLY CLASSIFIED AS AN "INTERNATIONAL BANK," EMBASSY BELIEVES THAT SUCH FACTORS AS POOR SOVIET GRAIN HARVEST, SIZE OF SOVIET TRADE DEFICIT WITH DEVELOPED WEST AND PREVIOUS SOVIET-EAST EUROPEAN BORROWING SHOULD MAKE COST AND ORGANIZATION OF THIS BORROWING MORE DIFFICULT AND MORE EXPENSIVE. IT INDICATES EXTREMELY HIGH PRIORITY BOTH CEMA AND USSR ARE ALLOCATING TO ON-TIME DEVELOPMENT OF ENERGY PROJECTS. END SUMMARY

2. EMBASSY INFORMED BY AMERICAN BANKING SOURCE RESIDENT MOSCOW THAT IIB IS NOW ACTIVELY NEGOTIATING IN WESTERN MARKETS FOR SYNDICATE LOAN OF EURODOLLARS SIX HUNDRED (600) MILLION.

3. AT PRESENT IT APPEARS THAT FRG'S DRESDNER BANK MAY BE LEAD BANK FOR SYNDICATE AND THAT BANQUE NATIONALE DE PARIS AND A LARGE ITALIAN BANK (POSSIBLY BANCA COMMERCIALE ITALIANA) MAY ALSO BE PARTICIPANTS. IT IS ALSO EXPECTED THAT ONE LARGE US BANK WILL BE ASKED TO TAKE PART AS FIRST-TIER SUBSCRIBER. DRESDNER BANK REPORTEDLY EXPECTS TO BE ABLE TO PROVIDE, EITHER FROM ITS OWN RESOURCES OR THROUGH PARTICIPATION OF ASSOCIATES, AS MUCH AS DOLS 140 MILLION FOR SYNDICATE.

4. IIB HOPES TO OBTAIN THIS NEW LOAN DURING FIRST HALF OF 1976. ITS STATED PURPOSE IS PURCHASE OF WESTERN EQUIPMENT, MAINLY PIPE, FOR ORENBURG NATURAL GAS PIPELINE. IN ADDITION, IIB OFFICIALS HAVE MENTIONED PRELIMINARY PLANS TO BORROW ANOTHER 200 OR 300 MILLION EURODOLLARS DURING LAST QUARTER OF 1976. THIS MONEY WOULD ALSO BE USED PRIMARILY FOR ORENBURG, BUT MAINLY FOR EQUIPMENT RATHER THAN PIPE. PLANS FOR SECOND LOAN ARE STILL TENTATIVE.

5. SOURCE SAID THAT IIB REPS HAVE NOW MADE A NUMBER OF CONTACTS IN LONDON EURODOLLAR MARKET REGARDING POSSIBILITIES FOR NEW DOLS 600 MILLION LOAN BUT THAT DETAILS ARE AT PRESENT BEING CLOSELY HELD, BOTH BY IIN AND WESTERN BANKERS. CONFIDENTIAL

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PAGE 03 MOSCOW 02685 231010Z

6. COMMENT - THE NEW LOAN, IF SUCCESSFULLY ACQUIRED, WILL, AS FAR AS EMBASSY IS AWARE, BE LARGEST DURODOLLAR LOAB IIB OR ANY SOVIET BANK HAS SECURED IN RECENT TIMES. IT WILL FOLLOW DOLS 350 MILLION LOAN NEGOTIATED BY IIB IN OCTOBER 1975 THROUGH A SYNDICATE LED BY CHASE MANHATTAN AND DEUTSCHE BANK (REFTEL). ASSUMING THAT IIB DURODOLLAR BORROWING PROCEEDS AS PLANNED, TOTAL ACQUIRED BY END OF THIS YEAR FOR

ORENBURG WILL BE IN NEIGHBORHOOD OF 1.25 BILLION DOLLARS.  
THIS FIGURE IS INDICATIVE OF SIZE OF ORENBURG PROJECT  
WHICH HAS AN OVERALL VALUE OF MORE THAN FIVE BILLION DOLLARS, IS  
THE LARGEST CEMA MULTILATERAL PROJECT EVER UNDERTAKEN AND WILL  
INCLUDE LARGEST NATURAL PIPELINE IN THE WORLD. IT IS ALSO  
AN INDICATION OF VERY HIGH PRIORITY IN BOTH SOVIET AND CEMA  
PLANNING WHICH HAS BEEN ASSIGNED TO ENERGY DEVELOPMENT AND  
URGENCY ATTACHED TO COMPLETION OF ORENBURG ON SCHEDULE.

7. ALTHOUGH WESTERN BANKERS HAVE SAID THAT IIB IS REGARDED AS A  
SEPARATE BORROWING ENTITY FROM BANKS IN THE USSR, AND THAT IS MAY  
ACCORDINGLY BE EASIER TO RAISE SYNDICATE EURODOLLAR FUNDS FOR AN  
IIB CREDIT, EMBASSY BELIEVES THAT INTEREST RATE FOR NEW US DOLS  
600 MILLION LOAN WILL ALMOST CERTAINLY BE HIGHER THAN 1.25 PERCENT  
OVER LONDON INTER-BANK RATE FOR EURO CURRENCY LOANS WHICH WAS  
CHARGED VNESHTORGBANK AND IIB FOR EURO DOLLARS LAST YEAR.  
AND DESPITE IIB "INTERNATIONAL CHARACTER", SUCH FACTS OF LIFE  
AS LAST YEAR'S BAD SOVIET GRAIN HARVEST, REPORTS OF ADVERSE  
WEATHER FOR CURRENT SOVIET WINTER-WHEAT CROP, HUGE SOVIET TRADE  
DEFICIT WITH DEVELOPED WEST, AND EXTENT OF PREVIOUS SOVIET-EE  
EURODOLLAR BORROWING SHOULD MAKE NEW LOAN MORE DIFFICULT TO  
ARRANGE.

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